



# Office of the City Auditor

## CAPITAL IMPROVEMENT PROGRAM CONTROL REVIEW

This report presents findings related to controls over the City's Capital Improvement Program process. While overall controls in the development and management of the City's capital projects are adequate, improvements to the control environment could be achieved.

**Report No. 9101  
November 1994**

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**SCOTTSDALE CITY COUNCIL**

Herbert Drinkwater, Mayor  
Councilman Greg Bielli  
Councilman James Burke  
Councilwoman Mary Manross  
Councilman Robert Pettycrew  
Councilman Donald Prior  
Councilman Richard Thomas

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CONTROL REVIEW**

This report presents findings related to controls over the City's Capital Improvement Program process. While overall controls in the development and management of the City's capital projects are adequate, improvements to the control environment could be achieved.

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# Table of Contents

ACTION PLAN .....	i
EXECUTIVE SUMMARY .....	1
CHAPTER ONE .....	3
Focus Of The Review .....	3
Background .....	3
Process Controls Common To All Projects Need Only Minor Improvement .....	6
Project Scoping And Cost Estimate Controls Appear Adequate .....	6
Added Review Has Improved Planning .....	6
Life Cycle Costing Will Improve Budgeting .....	7
Refinements Needed In Bid And Bond Processes .....	7
Controls Over Acquisitions Of Automated Systems And Technical Equipment Can Be Improved .....	9
CHAPTER TWO .....	13
CPM Provides Centralized Project Management Expertise .....	13
Overall Project Implementation Controls Are Adequate .....	14
Right-Of-Way Acquisition Complies To Guidelines .....	18
Inspectors' Role Changed .....	20
RECOMMENDATIONS .....	24
ABBREVIATED RESPONSES .....	26
APPENDIX A: Objectives, Scope and Method .....	29
APPENDIX B: Management Responses .....	33

# CAPITAL IMPROVEMENT PROGRAM CONTROL REVIEW FOLLOW-UP ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		PROPOSED RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
1	X		X		To properly consider all capital project costs, the Assistant City Manager should define the elements of life cycle costs associated with capital projects. Applicable life cycle costs should be incorporated into the operating budget process when appropriate.
2	X		X		To physically safeguard bids, the Director of Purchasing should consider using sequentially numbered seals on bid envelopes and securing bid box keys.
3	X		X		To financially safeguard bids, the Director of Purchasing should ensure that bid bonds do not expire before a contract is signed.
4	X		X		To protect the City from liability, the Director of Purchasing should develop and implement procedures to adequately verify that contractor performance and payment bonds, and insurance coverage, conform to statutory and administrative requirements.
5	X		X		To comply with State vital records standards, the Director of Purchasing should prepare contracts to preserve one true original copy, and file this document with the City Clerk.
6	X		X		The Assistant City Manager should consider establishing a project management position, within CPM, that is dedicated to administering capital acquisitions of automated systems and technical equipment. Procedures, techniques and controls already used within CPM could be applied in managing these projects and in tracking related costs.
7	X		X		The CPM Director should take steps to ensure that currently established procedures for administering capital projects are documented to archive institutional knowledge obtained in project implementation.
8	X		X		The CPM Director should direct the project budget analyst to streamline project cost monitoring efforts by maintaining pertinent information on an automated spreadsheet.

# CAPITAL IMPROVEMENT PROGRAM CONTROL REVIEW FOLLOW-UP ACTION PLAN

No.	MANAGEMENT RESPONSE		IMPLEMENTATION STATUS		PROPOSED RECOMMENDATIONS
	AGREE	DISAGREE	UNDERWAY	PLANNED	
9	X		X		The CPM Director should direct the project budget analyst to determine whether arrangements can be made to obtain detail on personnel charges made against each project.
10	X			X	The CPM Director should provide formal written guidance to project managers regarding the type of costs that are appropriate for charging against capital projects.
11	X			X	The CPM Director should formally designate the project managers as the responsible party for tracking warranty items associated with the projects they administered.
12	X		X		The CPM Director should direct the ROW manager to expand existing written procedures to include additional guidance regarding the negotiation phase of the process in order to ensure that ROW acquisitions are properly documented.
13	X		X		The CPM Director should direct the ROW manager to develop and implement an improved records management system to ensure that vital property records are safeguarded.
14	X		X		The CPM Director should direct the ROW manager to develop additional management reports which facilitate operational results review.
15	X		X		The CPM Director should ensure that the capital project inspectors, who now report to CPM, as well as their supervisors, are provided adequate written guidance regarding the level of documentation they are to maintain for each project. Required documentation should include field measurements taken on the project as well as supervisory oversight and review of the inspectors' work.
16	X		X	X	The Inspection Services Director should ensure that adequate written guidance is provided to inspectors and their supervisors, to ensure that proper levels of documentation are maintained and adequate supervision is provided to the inspectors.

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# EXECUTIVE SUMMARY

Capital Improvement Program Control Review  
City Auditor Report No. 9101

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November 1, 1994

To The Most Honorable Herbert R. Drinkwater, Mayor,  
and Members of the Scottsdale City Council:

This report transmits the results of our audit of the general controls over the City's capital improvement program (CIP). The objective of this audit was to: 1) identify and evaluate the adequacy of controls over processes that are common to all capital projects; 2) identify and evaluate the adequacy of controls used within Capital Project Management (CPM) to administer projects; and 3) identify and evaluate controls over the management of capital projects that involve the acquisition of automated systems and technical equipment.

Overall, we found adequate controls over the development and management of the City's capital projects. Improvements made to the process to enhance coordination within departments resulted in more precise project scope, cost and schedules. Additional improvements to include operating, maintenance and other identifiable costs of ownership (life cycle costs) in the project, will further improve this process.

Although overall controls are adequate, we did identify areas to further strengthen the process. These improvements include:

1) completing policy and procedures manuals; 2) strengthening documentation standards; and 3) using a dedicated project manager for capital projects involving the acquisition of automated systems and technical equipment.

The Assistant City Manager, the CPM Director, the Purchasing Director, and the Director of Inspection Services reviewed this report and submitted written responses which can be found in Appendix B. The Action Plan which precedes this letter sets out management's level of concurrence with each recommendation and an implementation timetable.

Audit work was conducted in accordance with generally accepted government auditing standards as they relate to expanded scope auditing in a local government environment and as required by Article III Scottsdale Revised Code §2-117, *et seq.*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the standards' three year peer review cycle requirement.

Respectfully submitted,



Cheryl L. Barcala  
City Auditor  
CIA/CPA/CFE

RR:Gail Crawford, CPS

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# CHAPTER ONE

Capital Improvement Program Control Review  
City Auditor Report No. 9101

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## Focus Of The Review

Our objective was to identify and assess controls common to all City capital projects, review the established internal controls in CPM, assess the control of projects involving the acquisition of automated systems and technical equipment, and identify projects that may need future review.

We did not perform a detailed review of projects managed outside of CPM. Controls in place over those projects are left to the discretion of the managing department. In these instances, project management duties are assigned to personnel with other primary responsibilities. Additionally, the nature of these capital projects can vary greatly from the normal construction item. For example some capital projects simply involve the payment of billings received from outside entities such as the water and sewer oversizing projects. Other capital projects more closely resemble maintenance items such as replacement of light fixtures at a park or swimming pool replastering. Risk factors for the capital projects managed in this way may vary from project to project. For this reason, further review of these CPM techniques may be warranted in the future.

This chapter discusses controls identified as common to all projects as well as the need for a dedicated project manager on cases involving the acquisition of automated systems and technical equipment. Chapter Two discusses the adequacy of controls over projects managed by CPM.

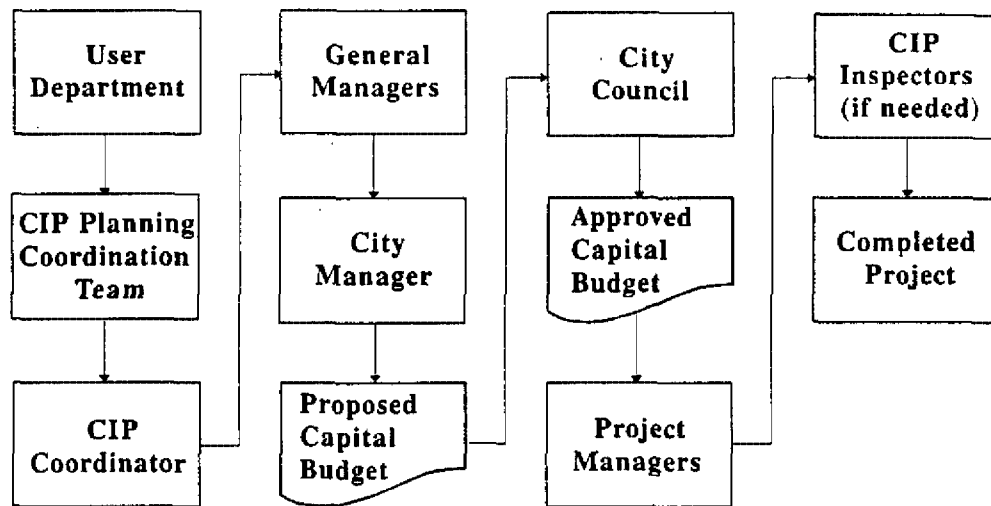
## Background

The City's CIP process consists of identifying the need for a project, developing a project scope and cost estimate, contracting consultants and contractors to assist in design development and to construct the project (if needed), verifying project quality during construction and managing the project through its completion. See Exhibit I, next page.

The City's CIP process is uniform for all projects until the point of project management. The focal point for project management can vary depending on the nature of the project. Projects that do not involve construction are normally managed within the user department while most projects that involve design and construction activities (the majority of capital projects), are managed by CPM.



## EXHIBIT I CIP Process



SOURCE: Audit Analysis

### City User Department

- Identifies capital project needs using City growth projections.
- Identifies potential project funding source.
- Develops initial project scope, schedule, and cost estimates.

### CIP Planning Coordination Team

- Meets regularly to assist sponsoring departments in adequately scoping, scheduling, and estimating proposed capital projects.
- Includes representation from all pertinent departments.
- When feasible, combines separate department requirements into a single capital project.

### CIP Coordinator

- Assembles information to prepare the proposed capital budget.
- Monitors project budgets versus actual costs during implementation.

### General Managers

- Meet as a team to review proposed capital budget and set priorities.

### City Manager

- Makes ultimate decision regarding project priorities.

### City Council

- Reviews the proposed capital budget project by project.
- Makes decisions on which projects to approve.

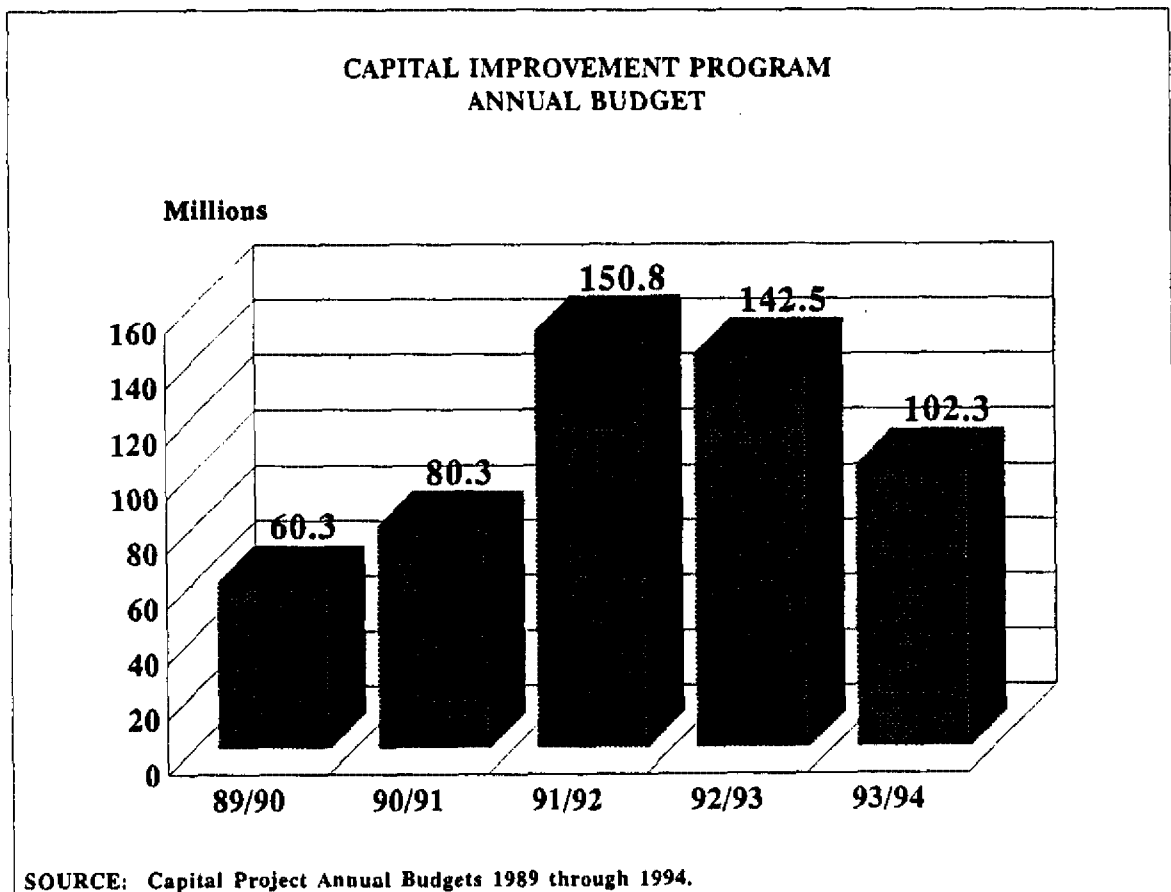
### Project Managers

- Supervise overall administration of assigned projects.
- Coordinate consultant selection.
- Prepare detailed project scope and related contract documents.
- Monitor project costs and progress.
- Review invoices.
- Coordinate with interested parties.

### Capital Project Inspectors

- When required, act as the primary control in assuring quality of the project.
- Observe contractor methods and materials.
- Coordinate sampling and testing of materials.
- Verify contractor compliance with applicable specifications, plans, and drawings.

A capital improvement is the construction or acquisition of a structure, facility or system for the use or benefit of the City. The City's capital budget authorizes funding for these projects. Unlike operating budget appropriations which lapse at the end of the fiscal year, capital budget appropriations do not lapse until the project is complete. The City's approved capital budgets over the last five years are presented below:



The City's annual capital budget includes unexpended funds from prior year projects not yet completed, and funding for new projects or later phases of previously authorized projects. The five-year program includes the annual budget along with the planned capital improvements for the next four years. The five-year program is reviewed and revised annually to reflect current priorities and to add a new fifth year.

In November, 1989, Scottsdale voters approved a bond program of \$287.2 million. Since that time, these funds, along with special assessment bonds and Municipal Property Corporation bonds, have provided the bond funded portion of the City's CIP. Pay-as-you-go funding sources include the two-tenths of a percent privilege tax dedicated to transportation (also approved by voters in 1989), development fees, current revenue and contributions.

## **Process Controls Common To All Projects Need Only Minor Improvement**

Each department is responsible for identifying the need for a capital project and developing initial project planning information. Since the 1989 bond election the City has taken steps to improve this process by developing and using a CIP Planning Coordination Team. Current efforts to require life cycle costs in proposed projects is an example of the City's proactive approach to process improvement.

### **Project Scoping And Cost Estimate Controls Appear Adequate**

The need for a capital project is usually identified at the department level. Usually, the department uses the City's general plan, which provides the City's projected population growth and land uses, to determine projects that will be needed to meet current and future needs. Departments also consider other information that may impact the services they provide. For example, Transportation considers projected traffic flows and volumes while Water Resources would consider the impact of environmental laws and water quality standards. Projects can also be identified through observations of department personnel in the field.

### **Added Review Has Improved Planning**

Each department develops a rough scope of the project so it can be presented before the CIP Planning Coordination Team (CIP Team). The CIP Team, started in May 1992, assists sponsoring departments in adequately scoping, scheduling and estimating cost for proposed capital projects prior to the annual budget review. It meets throughout the year and is composed of members of the City's various

departments. Team members provide verbal and written input to the sponsoring department regarding project scope, timing, coordination and cost estimates. The information is then used in refining project scope and estimating cost.

The CIP Team is the first major control point in the City's CIP process. Adequate scope and cost estimates are critical for a project because project budget drives project implementation. Prior to creation of the CIP Team, project scope was not adequately developed. Project managers and CPM management said that too much of their time was spent developing project scope and cost estimates, something that should have been already resolved.

**Life Cycle Costing Will  
Improve Budgeting**

In the past, life cycle costs have not been formally addressed at the City when considering the cost of a capital project. To this point project costs have been judged solely on the estimate to bring the project to completion. However, to properly assess the financial impact of a capital project on the City, life cycle costs need to be considered. Staffing and maintenance costs, as well as expected useful life of a project and the impact on the City's operating budget merit consideration when evaluating CIP projects.

City management identified this issue and created a task force to develop a methodology to address the incorporation of life cycle costs into proposed capital projects. We believe the first step in doing so is to define the cost elements that are to be included. Additionally, we believe it is necessary to devise a trigger mechanism to incorporate applicable life cycle costs into the operating budget process (e.g. additional staff and/or equipment to maintain capital projects nearing completion).

**Refinements Needed In Bid  
And Bond Processes**

The bid and award process for capital project construction contracts of \$10,000 and over is administered by the City Purchasing Department. Procedures are set out in the City Procurement Code which require sealed bids, posting of bonds and insurance standards. Additionally, effort is made to ensure broad competition. While these procedures are adequate, there are some areas which can be improved.

***Bids Should Be  
Formally Safeguarded***

Purchasing can improve the process followed to safeguard bids both physically and financially. Currently, bids are physically safeguarded using glued envelopes and lock boxes. Prospective contractors submit sealed bids to the City, which are time and date stamped and kept in locked bid boxes in Purchasing. However, keys to the locked boxes are readily accessible to staff. The box up front may not be attended at all times, and the key is left in the lock. Bids are submitted in glued envelopes, but are not sealed in a manner such that tampering could be deterred or detected.

Bids are financially safeguarded by bid bonds. The bonds are held until the contract is awarded, then are returned to all bidders. We noted, however, that the guarantee of payment which underlies the bid bond may be temporary. One company which we contacted acknowledged that while the document had been good, it was temporary and would have expired after a month. Contractors may be arranging binders with their agents to reduce their costs to bid. In the case of a problem procurement, bid bonds for the low bidders expire before the contract is awarded.

***Insurance Should Be  
Carefully Checked***

Following Council award, the contractor has 10 days to get performance and payment bonds, certificate of insurance, and Workmen's Compensation coverage in place. Purchasing is responsible to verify that bid, payment and performance bonds and certificates of insurance are good. This process could be improved.

State statutes require that the insurance company be authorized to do business in Arizona. We reviewed 10 procurements and found that current procedure is not adequate because company names on insurance certificates are generic. Insurance company names often contain a common recognizable title (e.g. Safeco). While one company with such a title in its name may be authorized to do business in Arizona, another company using the same generic title may not be authorized within the state.

Authorization is checked based upon the bid and contract staff having prior knowledge of the bonding or insurance company or from checking the company name against a list they keep. The list kept by staff is not updated on a regular basis. Staff do not call the insurance company to verify that it in fact issued the document presented by the contractor.

The A.M. Best or Lloyd's of London rating for the insurance company is not verified routinely, although City guidelines require a B+ or better rating. Risk Management's A.M. Best Key Rating Guide was over one year old, and thus, potentially outdated. Purchasing staff do not check ratings at all. We found one construction contractor whose certificate of insurance was issued by a company rated F. The insurance company was liquidated during construction, but this was not detected by City staff.

***Original Contracts Should  
Be Safeguarded By  
The City Clerk***

Purchasing keeps original copies of all formal solicitation contracts, rather than sending them to the City Clerk as the City Code requires. Contracts are documents that legally bind the City, so a true and original copy should be safeguarded by the City Clerk in accordance with state vital records standards. Three looseleaf original copies of the contract, as a minimum, are made. Contracts need to be prepared in such a way that staff can tell if copies are complete and original, for example, by binding pages or distinctively numbering and marking them so that text alterations or missing pages would be obvious.

***Controls Over Acquisitions  
Of Automated Systems  
And Technical Equipment  
Can Be Improved***

Not all capital projects involve the traditional construction of an improvement. In some instances, acquisitions of computer hardware and software, and other technical equipment, are made using funds provided through the capital budget. These capital projects more closely resemble purchases. However, they are more complex to administer than standard City purchases. These projects often require custom tailoring of a system to meet the needs of the user departments. Evaluation of numerous available options in light of project funding, and the development of contract specifications add to the complexity of these acquisitions. Administration of these duties is often assigned to personnel who have little or no experience with these type of responsibilities. Moreover, we identified a lack of formalized controls over this area of capital acquisitions.

***Project Managers Face Steep  
Learning Curve***

Project managers over acquisitions of automated systems and technical equipment have usually never done this type job before. As a result, they have to learn as they go along. These project managers are assigned out of the user department. We found that no written procedures exist that provide guidance on how to administer these capital acquisitions. Because such capital acquisitions are often a one time event for the user department, they

often lack a knowledge base in administration of the projects. Furthermore, unlike the CPM project managers whose primary function is to administer capital projects, project managers in charge of capital acquisitions usually have other primary responsibilities within their user department. The project manager role for them is collateral to their daily duties.

These project managers are faced with a steep learning curve regarding project administration. Their responsibilities include the gathering of information regarding design requirements and the incorporation of that information into documentation soliciting interest and proposals from potential vendors. The language used in these documents often becomes the language ultimately used in the contract. We essentially have critical elements of the contract written by individuals with little or no experience in doing so. This situation can result in unnecessary delays in the bidding process. During our review, we noted one project that had to be sent out to bid twice because of problems with contract language and, although a vendor has been selected, the contract language continues to require refinement.

***Dedicated Project  
Manager Needed***

Currently, OMS does provide some assistance on automated system acquisitions but it does not constitute project management. Their concurrence is required on bid acceptance, purchase orders, or addendum before Purchasing will issue the request for purchase. To provide this assistance, OMS has to take someone off their current work assignment.

We believe a more effective approach to administering these capital acquisitions would be the use of a project manager who is committed on a full time basis to administration of such projects, much like the project managers within CPM who supervise design and construction projects. The project manager should have appropriate background so that he or she is familiar with the subject matter. Because CPM already has established general controls for project supervision, we believe CPM would be the appropriate location to house this project manager position.

A full time project manager within CPM could develop and document procedures for administering the capital acquisitions. A knowledge base, that could be applied to various acquisition projects, would grow with the position. Such a knowledge base would be beneficial for the project manager in structuring related contract language.

***All Project Costs  
Should Be Tracked***

In cases of capital acquisitions of automated systems and technical equipment, total costs are not properly tracked. We observed that personnel costs are not charged to the capital projects. City personnel who spent time developing the project should charge that time to the project to properly account for cost. Such is the case with CPM managed projects. However, we found that members of the user department, including the project manager, as well as other City personnel who contribute their time to project development, do not charge their time to the capital project. The result is that the recorded cost of the project does not accurately reflect the entire cost.



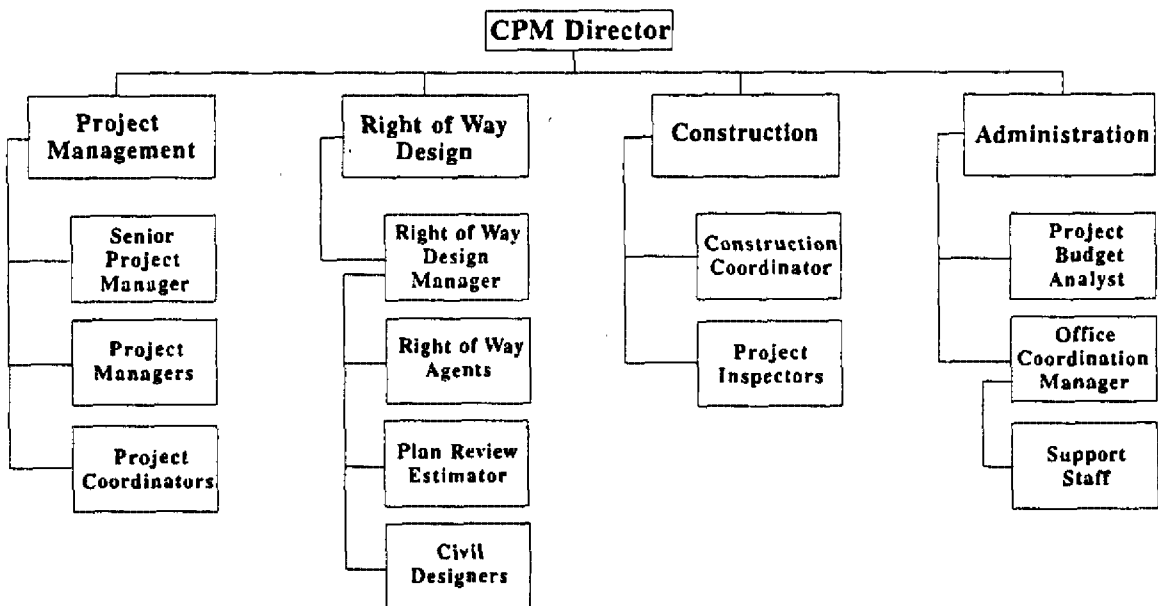
# CHAPTER TWO

Capital Improvement Program Control Review  
City Auditor Report No. 9101

## CPM Provides Centralized Project Management Expertise

Established in 1986, CPM was originally responsible for project management and in-house design activity. Subsequent to the 1989 bond election, CPM nearly doubled in size to a high of 26 staff members and responsibility for Right-of-Way (ROW) acquisition and internal plan review was added. Additionally, CPM recently became responsible for direct management of capital project construction administration (e.g. project inspections, traffic control, public relations and on-site coordination). The organizational structure of CPM is presented below:

### CAPITAL PROJECT MANAGEMENT ORGANIZATIONAL CHART



SOURCE: Capital Project Management Report, March 1994

Since July 1, 1989, CPM has managed 114 capital projects which have been completed. At the present time, CPM is managing 61 projects and will manage another 20 pending projects.

CPM's mission is to provide accurate and timely coordination, development and implementation of approved capital projects. This mission is primarily accomplished by the project manager/coordinator (project manager) assigned to the project. CPM project managers supervise project administration; maintain documents; coordinate consultant selection; prepare detailed project scope and all related contract documents; negotiate design contracts and change orders; monitor project costs and progress; review invoices; coordinate with interested parties; and assure contract requirements related to scope and budget. Acquisition of capital project property rights is also administered within CPM.

**Overall Project  
Implementation Controls  
Are Adequate**

Overall, CPM provides adequate controls over the management and monitoring of the projects it supervises. The use of specialized staff whose primary responsibilities are to supervise project implementation provides a logical control in efficiently managing projects. Additionally, project costs are monitored by both the project manager and by CPM's project budget analyst (analyst). Change orders appear to be properly processed and acquisition of property rights complies with City policy.

While overall controls within CPM appear adequate, we did identify opportunities for improvement. Documenting established procedures is a common control technique designed to preserve knowledge obtained regarding preferred methods. This technique could be used more often. A definition of what costs are appropriate to charge to a capital project is also needed to avoid any potential problems. Use of an automated spreadsheet to track project cost would streamline the current manual process. We also believe that CPM should develop a listing of warranty information and expiration dates on each project, for transfer to the project user upon completion.

***Established Procedures  
Should Be Documented***

The knowledge base and related procedures currently in place within CPM are relatively recent developments. Evolution of the office, as currently structured, began shortly after the 1989 bond election and was prompted by the anticipated increase in capital activity. As part

of that evolution, CPM developed a Project Management Guide (CPM Guide). Written procedures are a common and useful control in assuring that duties and responsibilities are executed in accordance with procedures that are recognized by management as the best way to conduct business.

The CPM Guide is comprehensive in describing procedures to be used by the project managers while in the design phase of the project. However, the Guide says very little as to construction phase procedures. While it was clear in discussions with the project manager, that established procedures do exist for administration of a capital project during the construction phase, we believe the procedures should be documented to maximize the usefulness of the control technique.

***Design Consultant Selection  
Properly Controlled***

The project managers are responsible for administering the selection of the design consultant for the capital project they are managing. CPM's procedure guide makes the project manager responsible for writing the Request For Interest which briefly describes the project's basic scope and is used to screen responding firms for their level of interest. The selection process is designed to inform all metropolitan Phoenix-area firms of the services being sought by the City. The process also is designed to be a team selection that is objective and that offers consultants on the short list the opportunity to make presentations regarding their project design concepts.

We found that the process for design consultant selection contained well thought out controls. Project files we reviewed indicated the procedures, per the CPM Guide, were appropriately followed by the project managers. We did, however, identify a situation in which the selected design consultant was nonresponsive to insurance requirements within the City contract. Although the consultant submitted documentation of a policy with coverage limits of \$500,000, the contract required coverage limits of \$1 million. The situation indicated that the project manager did not scrutinize the insurance documents submitted to him by the consultant. Procedures do not specifically require the project manager to do so. However, we believe that such specific procedures should be developed.

***Change Order Controls  
Appear Adequate***

We reviewed controls for processing change orders to a capital project. The change order process is used to increase or decrease the total compensation or the time allowed for the completion of a contract, provided the change is within the context of the original scope of work. The Procurement Code establishes the justifications required for a change order and the necessary authorizations. The CPM Guide also provides guidance in the change order process for capital projects. Additionally, the CIP coordinator, within Financial Services, reviews the proposed change order to verify there are sufficient funds in the project budget to absorb the change.

We reviewed a sample of change orders to verify that controls were being implemented. Based on this review, we concluded that change orders processed on CPM-managed capital projects are adequately controlled to ensure that the changes are within the original scope of the project, that changes receive appropriate approval, and that funds are available in the project budget to effect the change. The sample of change orders we reviewed was properly executed and authorized in accordance with documented procedures.

***Project Cost Monitoring  
Could Be More Efficient***

The CPM Guide makes the project manager responsible for monitoring costs throughout the life of the project. The monitoring is designed to ensure that the project can be completed within the budgeted amount and to ensure that only costs appropriately associated with the project are charged. Our review indicates that although controls are in place within CPM to properly identify and monitor project charges, improvements can be made.

The project manager is in the best position to determine whether a charge is legitimately associated with his project. However, the project manager does not see all charges prior to their being posted. The project manager often initiates project charges such as progress payments to contractors but graphics, postage and salaries can post without prior project manager knowledge.

CPM's analyst maintains manual ledgers of each CPM-managed project and verifies these records with balances recorded in the general ledger. The analyst extracts salary, graphics and postage charges from the general ledger and forwards them to the applicable project manager for review. We noted that salary charges to a project are presented in aggregate only. Therefore, they can only be checked for reasonableness. In order to make a proper determination as to

whether personnel charges to a project are appropriate, insight into who is charging how much time to the project is needed. However, the information extracted from the general ledger by the analyst does not have this detail.

While we consider CPM's approach to monitoring project costs a sound control mechanism we believe room for efficiency improvements exist. The manual ledger process used by the analyst appears cumbersome and could be considerably streamlined if the ledgers were kept on an automated spreadsheet such as Lotus. Additionally, if possible with the new payroll system, arrangements should be made to obtain detail into personnel charges against each project so that they can be verified by the project manager.

***Written Guidance Needed  
Regarding Appropriate Charges***

We found that CPM had no written guidance regarding what were appropriate charges for a project. Such guidance would help the project manager monitor project costs. We believe this issue needs to be addressed but we do not believe that it has been a significant problem in accumulating project costs.

In our review of a sample of project files we found that two computer setups were purchased for use within CPM and charged to specific capital projects. We do not believe that the cost of the equipment should have been charged to specific projects. We believe the purchases would have been more appropriately charged as CPM operating expense. Written guidance should be made available to the project managers to assist them in making determinations as to what is appropriate to charge to capital projects.

***Warranty Tracking  
System Needed***

Once a project is completed it is turned over to the sponsoring department for operation and maintenance. The City's standard construction contract requires the contractor to provide a one year warranty on workmanship and materials. However, capital projects such as construction of an occupied facility could contain elements (such as air conditioning units, lighting fixtures, etc...) that carry a longer or shorter warranty. During project construction, the project manager is usually the City employee who is most familiar with the project. Upon completion of the project, responsibility for maintenance and care of the project is turned over to the appropriate City function.

While some items may be covered under warranty should they fail, we found no established procedures or mechanisms to systematically review the need for warranty work just prior to warranty expiration. A prerequisite to such a system is the designation of an individual to be responsible for tracking warranty items associated with the project and the dates of their expiration. A tickler system could prove effective in triggering an assessment of the warranty items just prior to warranty expiration. The designated individual could serve as the City's contact point with the warrantors.

**Right-Of-Way Acquisition  
Complies To Guidelines**

The City process for acquiring property rights for capital projects, is administered within CPM. The process complies with the City's established ROW policy, set out in the Code of Federal Regulations on Uniform Relocation Assistance and Real Property Acquisition (49 CFR Part 24) which the City has adopted (see insert).

**Right-of-Way Goals**

- \* ensure that owners of real property to be acquired for projects are treated fairly and consistently;
- \* encourage and expedite acquisition by agreements with owners;
- \* minimize litigation and relieve congestion in the courts;
- \* promote public confidence in City land acquisition programs;
- \* ensure that persons displaced because of projects are treated fairly, consistently and equitably so that they do not suffer disproportionately as a result of projects which benefit the public as a whole;
- \* ensure that regulations are implemented effectively and efficiently.

Source: 49 CFR Part 24

The current ROW process was established in 1990. City ROW agents acquire property for capital projects. As well, the City contracts two appraisers who provide objective appraisals which become the basis for the City's offer to the property owner. The overall City process complies with established rules, yet areas exist where management can improve process control, and potentially, save money.

***Preferred Procedures Need  
To Be Documented***

Apart from the CFR, there is little in the way of written policy and procedures for the ROW area. Although the agents follow some established procedures, the procedures are not committed to writing. Additionally, there are other areas for which procedures have not been developed.

Procedures have not been formally developed for changing the type of property rights being purchased after the appraisal is finished and acquisition initiated. CPM management can exercise discretion in changing the kind of property right being bought, with the result that on some parcels in our audit sample, final acquisition cost did not match the appraisal-based initial offer. Although discretion is a requirement of any negotiation process, general guidelines can serve as a key control to ensure process deviations are properly documented and undergo required supervisory review prior to execution. Otherwise, the City could end up paying too much or too little for property, both undesirable outcomes.

***Project documentation  
needs to be improved***

While we did not identify any effect on current operations due to documentation issues, problems could potentially arise in the future. Not all needed documents related to projects are located in the project file. Hazardous waste assessments, escrow closings and other documents are not all consistently kept together. Negotiation diaries were not completed consistently. Non-cash transactions negotiated with property owners, in which the City agrees to provide future services for current property rights, are not documented in parcel acquisition files, nor are engineering estimates of cost or other documents cross referenced in the parcel acquisition files. Appraisal reports for parcels are filed separately from project files. Supervisory review of parcel documents is not documented.

ROW staff have begun reorganizing documentation on parcel acquisitions, and supervisory review will be documented in the future. The ROW manager is considering consulting the City Clerk for advice and assistance in designing an improved records management system.

***Management reports  
need to be developed***

Management reports need to be developed to facilitate management review of operational results. Currently, reports do not exist which consistently capture and categorize various payments made for ROW. No reports exist which track actual ROW costs against estimates.

Such information could be helpful in assessing the capital project budgeting process. CPM management does not track ROW separately, as they view it as only one part of a project, not as a program entity.

***Asset Management Issues  
Need To Be Addressed***

While not a part of this audit, real property asset management in the City is an issue which needs attention. We found that no systematic inventory of property owned by the City exists. For ROW, lack of such an inventory means that prices paid for property, documentation of ownership, and eventual disposal of excess property are not subject to adequate management oversight.

Ideally, management should be able to match every check written to acquire ROW to a deed filed in the One Stop Shop, to a parcel on the GIS, and to a real property assets file if property is left over after a capital project is finished. Eventual sale of property would also be recorded. In the past, the lack of a real property asset management system contributed to unauthorized real property purchases which went undetected. City management are aware that improvements are needed, and are studying the issues.

***Inspectors' Role Changed***

On capital projects that involve construction, inspectors act as the key control for quality assurance. Until March, 1994, the capital project inspectors were managed within Inspection Services. Inspection supervisors acted as the liaisons between the inspector and the CPM project manager when significant field issues arose. Since March, 1994, contract capital project inspectors report directly to CPM project managers. Because until recently capital project inspectors were managed out of Inspection Services, the controls and information we reviewed reflect on that structure.

Documents we reviewed indicate that inspectors assigned to capital projects performed their observations and coordinated testing as required. However, we found little evidence that supervisory review of the inspector's work had taken place. Additionally, supervisor roles and responsibilities were not clearly defined. We found that for both the inspectors and the supervisors, documentation was not available that specifically defined their administrative and procedural requirements. Additionally, although the supervisors said that on capital projects they acted as the liaisons between the inspector and the project manager, that function does not appear necessary.



***Documentation Should Be  
Detailed And Consistent***

The inspector acts as the primary control in assuring that the City receives the capital project which it engaged a construction firm to provide. Through on-site observation of contractor methods and materials, and through coordination of materials testing and sampling, inspectors verify contractor compliance with applicable specifications, plans and drawings for all project construction elements. Payments to construction contractors are initiated by the project manager based upon inspector-provided information. Because of the importance of the inspector's work, we believe that the inspector should have clear guidance regarding the level of documentation he or she should maintain on a project.

To document significant project events and conditions, Inspection Services required its capital project inspectors to complete a detailed daily report. However, Inspection Services did not provide the inspectors with written procedures on the amount of detail to be provided in the daily reports. We found no evidence that inspection supervisors reviewed the daily reports or provided feedback to the inspectors. Inspectors were essentially left to decide for themselves the level of detail to provide. Our review of the daily reports indicated that detail varied among projects. Such information could become critical in disputes with contractors, should any arise, after project completion. Insufficient detail in the daily reports could place the City at a disadvantage in such a situation.

***Measurements Should  
Be Documented***

The capital inspectors are responsible for taking field measurements on a project upon its completion. The measurements are used to determine project quantities, which in turn, are used as the basis for final payment to the construction contractor. Inspection Services does not provide the inspectors with written guidance regarding the field measurements. The inspectors have not been required to document or retain the measurements in any fashion. Additionally, we found no evidence of field measurements in the project files we reviewed. Because these measurements act as the basis for payment to the contractor, we believe that they should be documented and incorporated into the project files in each instance where they are applicable.

***Inspection Supervisors Not  
Needed As Liaisons***

Inspection Services did not appear to have clearly defined the responsibility of its supervisors nor was there any procedure manual or documentation that set out how the supervisors were to perform their work. Supervisors said that they were told verbally of their responsibilities and what was expected of them. However, we found little documentation to evidence supervisor involvement in the capital projects we reviewed.

Inspection supervisors told us they see their primary role in capital projects as being the liaisons between the inspector and the project manager on significant issues. However, inspectors and project managers we spoke with said that the job works fine without supervisor involvement. They said that they preferred to work directly with each other without supervisor involvement because this method facilitates the process. Additionally, one of the Inspection supervisors said that if he gets into an area that he's unfamiliar with, he'll ask CPM management for advice. He said he did so because no one within Inspection management is a registered engineer while there are two within CPM management. We believe that if CPM management is available to resolve inspection issues, the use of an inspection supervisor to act as a liaison between the inspector and the project manager is not necessary.

Some inspectors said they interacted with their supervisor on a daily basis at the project job-site, while others said they rarely if ever saw their supervisor on-site or at project meetings. Supervisors were not required to document site visits, meeting attendance or guidance provided to inspectors. Although the supervisors said they reviewed the daily logs and tests and to some degree relied on this review to assess job progress, they did not regularly document this review through signature or any other method. None of the daily logs we reviewed contained any evidence of supervisory review.

***Supervisory Review Needed***

Inspection Services is no longer involved in capital projects managed by CPM. Contract capital project inspectors now report directly to CPM project managers. We believe this is a positive step in eliminating unnecessary layers of formal communication between CPM and Inspection Services. This arrangement should facilitate the resolution of issues identified by capital inspectors in the field.

Whether the inspector reports to CPM or to Inspection Services, the need for written procedural guidance remains. Supervisory oversight and review of inspector work should be documented on a regular basis. The inspector's supervisor should document interaction with the inspector as well as significant direction provided. Both the supervisor and the inspector should sign the document to evidence understandings reached. Such documentation can be incorporated into the daily logs currently generated by the inspector.

## RECOMMENDATIONS

1. To properly consider all capital project costs, the Assistant City Manager should define the elements of life cycle costs associated with capital projects. Applicable life cycle costs should be incorporated into the operating budget process when appropriate.
2. To physically safeguard bids, the Director of Purchasing should consider using sequentially numbered seals on bid envelopes and securing bid box keys.
3. To financially safeguard bids, the Director of Purchasing should ensure that bid bonds do not expire before a contract is signed.
4. To protect the City from liability, the Director of Purchasing should develop and implement procedures to adequately verify that contractor performance and payment bonds, and insurance coverage, conform to statutory and administrative requirements.
5. To comply with state vital records standards, the Director of Purchasing should prepare contracts to preserve one true original copy, and file this document with the City Clerk.
6. The Assistant City Manager should consider establishing a project management position, within CPM, that is dedicated to administering capital acquisitions of automated systems and technical equipment. Procedures, techniques and controls already used within CPM could be applied in managing these projects and in tracking related costs.
7. The CPM Director should take steps to ensure that currently established procedures for administering capital projects are documented to archive institutional knowledge obtained in project implementation.
8. The CPM Director should direct the project budget analyst to streamline project cost monitoring efforts by maintaining pertinent information on an automated spreadsheet.
9. The CPM Director should direct the project budget analyst to determine whether arrangements can be made to obtain detail on personnel charges made against each project.

10. The CPM Director should provide formal written guidance to project managers regarding the type of costs that are appropriate for charging against capital projects.
11. The CPM Director should formally designate the project managers as the responsible party for tracking warranty items associated with the projects they administered.
12. The CPM Director should direct the ROW manager to expand existing written procedures to include additional guidance regarding the negotiation phase of the process in order to ensure that ROW acquisitions are properly documented.
13. The CPM Director should direct the ROW manager to develop and implement an improved records management system to ensure that vital property records are safeguarded.
14. The CPM Director should direct the ROW manager to develop additional management reports which facilitate operational results review.
15. The CPM Director should ensure that the capital project inspectors, who now report to CPM, as well as their supervisors, are provided adequate written guidance regarding the level of documentation they are to maintain for each project. Required documentation should include field measurements taken on the project as well as supervisory oversight and review of the inspectors' work.
16. The Inspection Services Director should ensure that adequate written guidance is provided to inspectors and their supervisors, to ensure that proper levels of documentation are maintained and adequate supervision is provided to the inspectors.

## **ABBREVIATED RESPONSES**

The Assistant City Manager responded as follows:

1. Agree. The recommendation warrants full consideration and will be addressed within the next 90 days.
6. Agree. The recommendation warrants full consideration and will be addressed within the next 90 days.

The Purchasing Director responded as follows:

2. Agree. Access to keys for front and back bid boxes has been limited. She does not feel that the extra sealing step adds value to the process.
3. Agree. The bid bonds will be checked to be sure that they will be valid until the estimated award date.
4. Agree. The checking of insurance and bonds is now the responsibility of the Risk Management Director.
5. Agree. It will take a few weeks to work out the details of safeguarding original contracts with the Clerk and CPM.

The CPM Director responded as follows:

7. Agree. A final draft of the Construction Administration Guide is under review.
8. Agree. The ledger system is being converted to an automated spreadsheet.
9. Agree. CPM will receive by-name salary charges to projects each quarter from Financial Services staff.
10. Agree. Current guidance provided to project managers on appropriate charges for a project will be documented in a formal, written format.
11. Agree. The project manager or construction coordinator will be responsible for tracking warranty issues.

12. Agree. The right-of-way acquisition procedures have been reviewed and supplemented to provide additional guidance to ROW agents during negotiation.
13. Agree. The supervisor's initials on the checklist will indicate that the file elements have been reviewed prior to file closure and storage in accordance with revised procedures.
14. Agree. Among other actions, a master list of parcels and property rights acquired is under development.
15. Agree. The Construction Administration Section has been organized to include inspectors. The Construction Administration Guide is being finalized to provide adequate written guidance for staff.

The Inspection Services Director responded as follows:

16. Agree. Both short- and long-term activities are underway: written procedures and policies for both the inspectors and their supervisors, and a comprehensive review of inspection activities in the field.

## APPENDIX A

### Objectives, Scope and Method

The objective of this audit was to comment on the adequacy of internal controls in place over the City's process for managing capital projects from the development of project concept to project completion. The review was prompted by the 1989 voter-approved bond program of \$287.2 million which increased CIP activity at the City. During the survey phase of this audit, we found that while certain aspects of the process were the same for each project regardless of type, other aspects of the process differed among projects.

We found that based on the nature of the project, implementation can take various forms. However, the majority of capital projects involve design and construction activities which are implemented by the City's CPM Division. For this reason our review focused on the control environment over the implementation of these type of projects. We did not perform a review of projects managed outside of CPM with the exception of one category of capital projects. Based on preliminary issues identified during the survey portion of our audit, we did review the control environment over capital projects involving the acquisition of automated systems and technical equipment. These type of projects are currently managed outside of CPM.

The City process for identifying the need for a capital project and refining scope and cost estimates to the point of consideration within the capital budget is basically the same for all projects. Because a project's initial budget and scope drive its implementation, we examined controls in this area. We also reviewed the process for bid and award of capital project construction contracts as well as controls exercised over the implementation of capital projects involving construction and ROW activity.

To gain an understanding of the City's process and related controls for implementing capital projects involving construction, we interviewed a judgmental selection of current and former CPM personnel, City inspectors and contractors who had worked on projects. Policies and procedures documentation were examined as well as standard documentation used by City personnel during project implementation. We selected a judgmental sample of ten completed capital projects to review documentation to determine whether stated procedures were followed and authorizations were obtained, when appropriate, during project implementation.



We also reviewed costs charged to the selected projects as well as documentation used to track the charges in order to determine that the costs were being appropriately monitored.

To determine the adequacy of general controls in the bid and award and bonds and insurance processes, we reviewed statutes, ordinances and regulations, and assessed whether City processes were structured to comply with requirements. To determine key control points, we interviewed staff and reviewed written procedures. We assessed a judgment sample of 32 procurements for architecture/engineering services and construction, for compliance with requirements.

To determine the adequacy of internal controls over capital acquisitions of automated systems and technical equipment, we participated on four automation project teams. We attended related meetings and observed project progress. We interviewed the project managers over these projects as well as the Office of Management Systems Administrator to gain insight into the implementation of these type of capital projects. We also identified the level of documentation available for use in providing guidance for implementing capital projects that involve the acquisition of automated systems and technical equipment.

To determine if the general controls in the ROW acquisition process were adequate to make sure the process was managed efficiently and effectively, in compliance with applicable statutes and regulations, we reviewed policy and procedures for the area, and interviewed staff. We prepared a checklist of 49 CFR requirements for both acquisitions and relocations and assessed whether or not requirements were satisfied by City operations. We also evaluated adequacy of management actions on recommendations in Report No. 9004, Investigation of Internal Control Weaknesses Involving Community Development Block Grant Funds and Other City Resources, April 1990, as they related to relocation activity.

To determine that actual ROW acquisitions complied with the rules, we reviewed case documentation on 4 projects involving 13 parcel acquisitions with the following facets: relocation, federal government involvement, condemnation, commercial, residential and vacant. We also reviewed case documentation on a judgment sample of parcel acquisitions of 15 parcels acquired under 3 projects. To track program payments, we created accounts payable reports for ROW acquisition and relocation for each project reviewed.

We also attempted to determine how many relocations and condemnations had been experienced in acquiring ROW since the program was reorganized in 1990, and the total amount expended on ROW and related items. We reviewed contracts for appraisal and relocation services, and determined whether or not services provided met requirements. We did not verify billings. Where possible, we evaluated accuracy of management reports.

## APPENDIX B

### Management Responses

1. Memorandum from Sandy Spain, Purchasing Director.  
Subject: CIP Audit.
2. Memorandum from Joe E. Gross, CPM Director. Subject:  
Response to Draft Audit "CIP Control Review," August 29,  
1994.
3. Memorandum from John Smetana, Inspection Services  
Director. Subject: Draft Audit Response.
4. Memorandum from Ray Garrison, Assistant City Manager.  
Subject: Audit Report "Capital Improvement Program Control  
Review."

Memorandum

September 21, 1994

To: Ramon Ramirez, Senior Internal Auditor

From: Sandy Spain, Purchasing Director

CIP AUDIT

Bids Should be Formally Safeguarded: I agree. The key for the back bid box is now placed in a location known only to Bid and Contract Staff. The key for the front bid box is now placed in a location known to the Secretarial Staff and Bid and Contract Staff. Staff has been instructed that at no time are keys to be left in sight.

Note: The action plan indicates that sequentially number seals should be used. All envelopes are checked for seal when they are received. If received in person and not sealed, the deliverer is given a roll of tape and asked to seal the envelope before we will accept it. If by chance mail is received which is not sealed, we seal it with tape. Mail Services and Warehouse, who receive U.S. and special messenger mail, are instructed not to open any item identified as a bid or related to a bid. At that point bid envelopes are date/time stamped and put in a locked box. With access restricted to Bid and Contract and Secretarial Staff, whose job it is to safeguard bids, we do not feel this extra sealing step adds value to the process. We have not experienced any problems in this area.

Bid Bonds: By their nature are always temporary and do not carry expiration dates. I do not believe that we can ensure that they will not expire. What we can do is to check the bonds that we are holding for any contract that is not awarded within the customary 30-day period, and this assignment has been made to the Bid and Contract Staff, to be sure that the bond will be valid until the estimated award date. We have no idea what "Contractors may be arranging binders..." means. We always receive a Bid Bond Document as required by State Statute.

Insurance Should be Carefully Checked: I agree and am pleased to report that the checking of insurance and bonds is now the responsibility of the Risk Management Director. He is checking that the certificate names the actual company authorized in Arizona to issue the bonds or insurance, the rating and that the coverages are as specified in the bid documents. His confirmation is obtained by Purchasing in writing and made part of the contract file.

Prepare and preserve one true original contract: The Clerk has historically delegated the keeping of bid contracts to Purchasing for a variety of reasons not the least of which was the facility to keep the contracts and plans on site and the fact that we need to refer to them continually. I understand that from previous conversations with Audit, the Clerk cannot delegate this responsibility. Purchasing will supply the Clerk with the original contracts. We will also send the original of each change order and modification to those contracts and the contractors proposal when appropriate. We will make a copy for Purchasing reference. The original payment, performance bonds and insurance certificates will be given to the Contract Administrator who is responsible for seeing that they do not expire during contract performance. Purchasing will also keep copies of those documents for reference. We expect it to take a few weeks to work out the details with the Clerk and CIP.

Construction contracts are numbered sequentially albeit in several sections. The City's boilerplate pages are sequentially numbered and evidenced in a Table of Contents. The consultants technical specifications and special provisions are sequentially numbered and this numbering is also usually evidenced in a Table of Contents. The binding is a plastic comb style known as GBC we are investigating a spiral bind. Pages can be removed, but not inserted in this type of binding without the machine to do it.

Control over Acquisitions of Automated Systems: Although not indicated as an item for Purchasing response, I am concerned that this report could be construed, by the use of the word acquisition, that there is not an adequately controlled procurement process. The procurement of technology contains the same formalized controls as those in place for any other purchase in excess of the bid limit as provided by the City's Procurement Code. This process is well documented with the exception of any required negotiated items, which are accomplished with staff from Purchasing and Legal and must be specific to the acquisition.

Project Managers Face Steep Learning Curve: Again, I have a concern regarding the statements about contract language. Any contractual language included in a solicitation is reviewed by Purchasing and when deviating from established language, by Legal and Risk. All solicitations for technology are reviewed by knowledgeable staff in OMS. The Project Manager may be responsible for the initial draft, but does not have responsibility for the contract language. We do not know which solicitation was reviewed regarding the statement that the problem requiring re-bid was the contract language and after vendor selection that continues to require refinement. It is possible that "contract language" and "specifications" are being used interchangeably and there is a difference.

Dedicated Project Manager Needed: The role of OMS concurrence is not accurately described. Purchasing requires their concurrence not only on bid acceptance, but on the technical specifications before they are issued.

I do not feel that this process is substantially similar to construction projects and feel that the full time technology Project Manager should be assigned to the OMS Department so that when a major acquisition is not going on, the individual could contribute to other technology support. The users of the technology are still key to identifying what the specifications are, they are the experts in what they need and should continue to be responsible for the technical specification. This responsibility is frequently shared with a consultant.

All Project Costs Should be Tracked: Not all costs are charged back to CPM projects. None of Purchasing time is charged to CPM projects nor do I believe is any of the Accounting time.

Page 1 does not indicate that the OMS Administrator has reviewed this report. It seems as though he should.

September 22, 1994

TO: City Auditor

FROM: CPM Director *jes*

RE: Response to Draft Audit "CIP Control Review", August 29, 1994.

The following responses to your draft comments concerning CPM Division are provided. Each response is numbered to reflect your comments in the draft report.

7. Many of the established procedures for administration of a capital project during construction appear in MAG Uniform Standard Specifications for Public Works Construction. This publication, with its Scottsdale Supplement, is provided to each project manager, construction coordinator, and project inspector in CPM Division as the basis for administering a construction project. Additionally, CPM Division has been involved in a six-month effort to codify existing policy guidance pertaining to administration of City construction projects. A final draft copy of the Construction Administration Guide has been produced and is under review. It documents policies for Materials Testing, Quality Control, Warranty Procedures, and Public Relations, among other topics.

8. The Project Budget Analyst is in the process of converting our ledger system of cost accounting into an automated spreadsheet. The conversion process has been lengthy, due to the extremely heavy workload of day to day project accounting actions.

9. We had previously investigated the issue of determining specific salary charges to projects. At that time, charges could only be determined with difficulty, and a large expenditure of time by financial services staff. However, project account numbers are kept on a somewhat confidential basis, therefore, inappropriate salary charges have not been an issue in the past. We have recently arranged with financial services staff to receive by-name salary charges to projects each quarter. This has been made possible by the new payroll system and should give project managers even more confidence in the salary charges they review each month.

10. Current guidance provided to project managers on appropriate charges for a project will be documented in a formal, written format. Obviously, no all-inclusive checklist covering every situation can be formulated. Past verbal guidance has been clear and is continuing.

11. CPM Division has experience in tracking warranties on the Scottsdale Stadium Project, during which a tickler system was implemented to assess warranty item status just prior to warranty expiration. We presently are reviewing our final draft section on Project Warranty Procedures, which documents appropriate warranty follow-up. Warranty follow-up is a complex issue involving a number of City departments, whose staff requires training on equipment operations prior to acceptance. Experiences on the Library Expansion Project are also being documented to provide the basis for future policies and guidelines concerning this issue. The project manager or construction coordinator will be responsible for tracking warranty issues.

12. Changes in property rights may occur when final project documents are prepared. Agents are directed to coordinate with the design professional to minimize the property taking. Initial and revised offers for real property rights are appraisal-based and coordinated with contracted fee appraisers. Compensation for property rights paid to property owners are based on potential land use value, improvement value and severance damages. Other considerations consist of cost of avoidance for litigation. Each property is considered on a case by case basis. Right-of-way acquisition procedures have been reviewed and supplemented to provide additional guidance to ROW Agents during negotiation.

13. Right-of-way files are currently kept in a 3-ring binder format which was established and has been in use since 1990. This format provides for an orderly organization of project records and documentation. The format contains an "Acquisition Monitoring Guide" which provides a one sheet checklist for all vital project records. ROW Agents have not always been able to keep their filing current and the checklists up to date in their "open" files due to heavy work loads. However, all files are reviewed and the checklist is completed prior to file closure and storage. The supervisor's initials, which were not previously required, will be added to the checklist indicating that the file elements have been reviewed prior to file closure and storage in accordance with revised procedures.

14. Each ROW Agent reports the progress on assigned acquisitions to his supervisor and the Project Manager/Coordinator assigned to the project. The "Right-of-Way Acquisition Budget" is one of these monthly reports. This report is a one page summary document prepared on a project basis. Each report lists the parcel owner, parcel number, type of property right required with area, along with estimated costs for land, title fees, appraisal fees, review appraisal fees, relocation agent fees, relocation costs and appraised value. Actual costs for the foregoing items including final purchase price are also recorded as they occur. The result is a dynamic monthly reporting of estimated versus actual costs to date. This report has proven to be an invaluable budgeting tool for the Project Manager/Coordinator and has been in use since 1991. Currently, a master list of parcels and property rights acquired is under development. This master list records fees and compensation paid on a parcel basis in project groupings.

15. CPM Division has organized a Construction Administration Section consisting of three Construction Coordinators and eleven Project Inspectors. The Coordinators supervise the work of the Inspectors and are currently meeting biweekly with the CPM Director to finalize the Construction Administration Guide, which will provide adequate written guidance on project documentation, field measurements, and supervisory oversight, among other subjects.

Attachment: Follow-Up Action Plan [not reproduced]

October 6, 1994

Memo To: Ramon Ramirez, Internal Auditor

From: John Smetana, Inspection Services Director

Re: Draft Audit Response

Having misplaced the draft reports you sent, and then locating them earlier this week, this response is two weeks late +/- . My apologies.

On page 11 of the report, item 16 of the Proposed Recommendations, Inspection Services is given fair direction under 'Proposed Recommendations' which will promote and enhance future efforts. As I have noted under 'Management Response', I agree. Under 'Implementation Status', we are working towards your recommendations and are both planning future improvements and have improvements underway.

Items underway are written procedures and policies for both the inspectors and their supervisors. Also underway is a comprehensive review of inspection activities in the field.

Bill Gular with Organizational Effectiveness is riding along with each inspector and evaluating their inspection techniques and modus operandi. The outcome here will help standardize the actual field inspection activities.

Future use of the Organizational Effectiveness study will allow us to begin to have contractor clients calling in and requesting their inspections similar to the format currently being used by the building safety unit. This will give management a much better sense of how to plan for staffing needs in the future and how to best utilize current assets.

Further down the road, we're looking at minor reorganizations which will provide more comprehensive inspection coverage in all areas of our endeavors of planning, building safety, engineering and survey.

c Greg Larsen, Planning and Community Development General Manager  
John Paramelli, Community Development Administrator  
John Courtney, Field Engineering Manager



October 14, 1994

To: Ramon Ramirez, Senior Internal Auditor

From: Ray Garrison, Assistant City Manager



**AUDIT REPORT "CAPITAL IMPROVEMENT PROGRAM CONTROL REVIEW"**

The above referenced draft audit report included two recommendations (number 1 on life cycle costs and number 6 on project management associated with the acquisition of automated systems and technical equipment) for consideration by the Assistant City Manager. I am in agreement that these recommendations warrant full consideration.

These items are very significant and consistent with our organizational priorities. Barbara Burns and I have consulted and we expect to have addressed these matters within the next 90 days.

cc. Barbara Burns, Assistant City Manager